



World Consumer Rights Day 2012 Campaigning for a 'real choice' in financial services

The right to choose - *To be able to select from a range of products and services, offered at competitive prices with an assurance of satisfactory quality.*

One of the four original consumer rights as set out by US President JF Kennedy,
15 March 1962

*"The benefits of full, effective competition in the financial sector are enhanced efficiency, the provision of better products to final consumers, greater innovation, lower prices and improved international competitiveness. Greater competition also enables efficient banks to enter markets and expand, displacing inefficient banks. Competition should therefore be encouraged, facilitated and protected within the financial sector where it is appropriate. This includes the removal of unnecessary restrictions to competition, which can provide a major source of rents for banks."*¹

Competition and financial markets: key findings,
OECD, 2009

Introduction

The right to choose is one of the eight basic consumer rights. A consumer should be able to select from a range of products and services, offered at competitive prices with an assurance of satisfactory quality. For a consumer, this gives them the freedom to choose the best deal and hold providers to account.

For the wider economy, the right to choose is fundamental to the creation of a genuinely competitive market that drives innovation and rewards firms which deliver good-value products and customer service - and punishes firms which do not. Consumers should not be forced to tolerate excessive charges, poor service or irresponsible corporate behaviour because of a lack of choice.

But this basic consumer right is being undermined in financial services, one of the most important sectors for consumers and the economy. Even when they are fed up with their bank or another financial service provider, many consumers feel it is too difficult, or not worth switching. As a result, there is often little incentive for banks and other financial service providers to improve their service or cut costs.

This briefing is a short summary of the issues drawing on the work done by a number of CI members and sister organisations.



What stops consumers choosing?

Consumers are often put off from changing providers because of the difficulty and perceived risks involved, which can include:

- The time required to change provider and the complexity of the process.
- The direct costs that exist for closing or transferring accounts.
- The perceived risk that payments may be lost and additional costs incurred.
- Tie-ins that require a consumer to commit to a product or service for a period of time or bundling that requires consumers to purchase products in addition to the one they actually wanted.
- A lack of clear information explaining the differences between the various providers.

However, even if a consumer is prepared to navigate these obstacles, many may still be asking themselves whether there is much point in switching. There is often a perception that 'they're all the same.' And, in many cases, consumers are right – too often there is a genuine lack of real choice in a market that is dominated by a small number of large companies.

France: competition found lacking

The banking market in France is highly concentrated, and one of the most expensive in Europe. At 7.5% per year, France also has a low bank-account switching rate. Various studies have found that consumers are unlikely to switch to a different bank, either due to loyalty or because they believe that the process is too difficult.

A study by CI member UFC-Que Choisir on banking fees and account mobility found that there is a strong link between high charges and the low rate of switching in France. UFC also found very little competition on price between banks: even where slight variations existed between different competing products and services, there was very little difference in price for an average 'shopping basket' of financial services. Banks were also found to offer very little assistance to consumers seeking to switch provider, including potential new customers! Instead, the bank's strategy focussed on selling existing customers additional products and services, rather than actively attracting new clients. UFC's research persuaded the government regulator to launch an investigation into the problems surrounding account mobility in France.

In October 2011, UFC participated in a national 'Observatory of prices,' which found that banks charged higher fees for services for which there are few or no alternatives for consumers (such as debit cards, for example).



Making it easier for consumers to change providers

In many countries, there is evidence of widespread dissatisfaction with banks and many financial service providers. For instance:

- In China, a survey revealed more than 40% were dissatisfied with unreasonable charges.²
- In the UK, the Financial Services Authority received over 1.7 million consumer complaints in the second half of 2010.³
- In India, the Office of the Banking Ombudsman received 79,266 complaints about banking services during 2009-2010.⁴
- In Brazil, in 2009 the financial sector ranked second in the number of complaints the department of consumer protection received from all Brazilian consumers. The Central Bank of Brazil also receives complaints from consumers of financial services.
- In France, 15% of consumers want to change their bank, but only 5% really do it.

USA: consumers' threat to switch in protest at unfair practices pays off

In early October 2011, Bank of America announced that in January 2012 it would begin charging most of their checking account customers a USD5 monthly fee for using their debit card for purchases. Several other banks - including JP Morgan Chase, Wells Fargo and SunTrust - were considering introducing similar fees. The proposals caused a storm amongst consumers, and CI's member in the US, Consumers Union (CU), began actively lobbying the banks concerned to withdraw their plans. CU also called on the US Congress to investigate the fee to determine if the banks were treating consumers unfairly.

As part of their mobilisation, CU produced a number of online tools to engage consumers. This included a "[Break up with Bank of America](#)" YouTube video, which captured the outrage of the bank's long-term customers who were now considering leaving the bank after their loyalty was rewarded with a fee to access their own money. Viewers were also encouraged to submit their own "break up" stories via video. CU also produced an online '[How to move your money](#)' video guide with consumer advice and tips about how to switch to a different bank. A collaboration with 'The Consumerist' website to produce a series of "How I moved my money" stories from consumers received over 6,000 submissions.

Approximately 780,000 of CU's online activists were also notified via an email entitled "Unfee-lievable!", and encouraged to complete an online action to support the call for Congress to launch an investigation. Within 24 hours, nearly 40,000 consumers had completed the action. CU also wrote to each of the bank CEOs requesting them to withdraw their plans, and included the letter in a [press release](#) sent to reporters covering banking issues. By late October 2011, three of the four banks that were targeted by the campaign had abandoned their plans to implement a monthly debit card usage fee. Bank of America finally dropped its plans on 1 November 2011.



And yet switching is unusual

In the EU, only 9% of consumers changed their account providers during 2007-8, while 25% of consumers changed their car insurance and 22% their internet company.⁵ In Australia, 7.6% of people surveyed by CI member CHOICE had switched bank accounts in the last two years.⁶

As well as helping to promote competition in the market, switching is an important way for consumers to hold banks to account. Consumers should be able to 'vote with their feet' if they feel they are not being treated fairly by service providers.

A number of steps have been identified that could make it easier for consumers to switch

Account-number portability: One way that the process of changing banks could be made easier would be for consumers to be able to keep the same account number when they move. While this has received support from a number of national commissions, change has been opposed by the industry as they claim that the costs would be prohibitively high. One country, Sweden, does have a version of account-number portability (the BankGiro), and developments in technology may make it increasingly possible for a cost-effective solution to be found.

Sweden: portable account- numbers

The Bankgiro system is currently the world's only portable account-number system. All participating banks provide consumers with a universal Bankgiro number, which can be linked to any bank account and functions as a reference point to direct transactions. Consumers can easily transfer their Bankgiro number to a new account in order to take advantage of the best deal available. However, CI member Sveriges Konsumenter has found the system is mostly used by commercial entities, and that consumers prefer to manage their transactions via internet banking. Many consumers still view switching as difficult and potentially risky. Another possible explanation of the low switching rate is the lack of trust in banks, which has been found to have drastically reduced among Swedish consumers between 1990 and 2010.

Switching rules: Changing banks can also be made easier for the consumer if the bank that the consumer is moving to is responsible for writing to the consumer's previous bank and ensuring all payments are transferred to the new account. Establishing rules that specify the responsibility of the bank and the time and costs involved can simplify the process greatly. The Common Principles for Bank Account Switching is a voluntary code developed by the European Banking Industry Commission and entered into force in all EU member states and Norway in 2009. While this is a move towards clearer processes, implementation of the code needs to be improved.



The Netherlands: switching service

The 'Overstapservice' bank account switching service was introduced in the Netherlands in 2005, with the aim of providing a mechanism to allow consumers to easily switch their account to a new provider. Through the service, the old bank provides the new bank a list of standing orders to be transferred to the new account. The service also automatically redirects all payments from the old account to the new account for a period of 13 months, and also supplies the consumer with cards bearing the new account information, which can be sent out to interested parties.

In late 2011, Consumentenbond conducted a survey of 1,918 users of the switching service in co-operation with the Dutch Banking Association. The survey found that use of the service had remained stable at between 80,000 to 100,000 a year, and consumers reported a satisfaction rate of 8.5 on a scale from 0 to 10, (up from 7.1 in 2006). However, despite drawing a favourable conclusion on the switching service, Consumentenbond believes that the best option would be a Europe-wide system of account-number portability.

Reducing the direct costs of switching: Banks can charge high fees for the closure or transfer of a current or savings account. The purpose of these fees is to discourage switching by decreasing the opportunity cost of a change. These fees must decrease to increase mobility.

Improved information for consumers: Too often consumers may be unwilling to change providers simply because they cannot compare the different deals that are available in the market. Consumers need good quality comparable information if they are to have the confidence to switch and the information they need to make an informed choice. Such information will also help to combat 'gimmicks' that encourage consumers to switch to services that are not a good deal.

Australia: key fact sheets for mortgages

CI member organisation CHOICE has been calling for "plain English" and full financial disclosure on financial products as part of its Better Banking Campaign. One of the campaign's successes in 2011 was persuading the government to introduce Key Fact Sheets for mortgages (to be implemented in January 2012).

The new rules require all mortgage providers to supply the consumer with a standardised one-page summary, which will spell out the term of the loan, the frequency of repayments, the interest rate, and the total amount that will be paid out if the loan goes to term, including all fees.



France: improving consumer information

In 2010, Consommation, Logement et Cadre de vie (CLCV) conducted a survey to assess the level of compliance with a switching service based on a professional standard which had recently been implemented by the French banking federation. The survey, which looked at the level and quality of information provided to consumers by banks and the effectiveness of the switching service, found that awareness among consumers of the switching service was low, and that bank charges remained high. However, another report from the prudential supervisor in November 2011, which also verified compliance with the standard, found that banks had improved their practices in relation to the provision of consumer information. CLCV also publishes an annual survey which compares fees and charges from over 100 banks, with a view to encourage consumers to shop around for the best deal and stimulate greater competition.

Address unfair commercial practices such as tie-ins and bundling: Consumers may be unable to switch between financial products because they are either tied into a package for a prolonged period of time or because the product is part of a bundle that requires them to buy one service in order to access another. Practices such as these make switching complicated or impossible.

Improving choice for consumers: Making it easier for consumers to change providers will help to increase competition in financial services; however, it is important to note that measures to promote switching alone should not be seen as the sole remedy to the lack of effective competition in the banking sector. For example:

- Switching may not provide a strong enough incentive for firms to improve their price and service offering for existing customers.
- Providers may respond to the threat of switching by developing even more complex products and even product information, thus intensifying consumer inertia.
- Even with these measures, consumers still face a considerable imbalance in their relationship with banks, with a lack of choice and products that may cease to become available or change in nature.

Therefore, alongside actions to promote switching, governments also need to play their part and ensure that their actions are not impeding competition.

In too many countries, the financial services sector is dominated by a small number of very large providers, and this is a problem that has been getting progressively worse in recent years. In a recent CI survey, 21 CI members perceived an increase in concentration in the banking sector:

- In the US, concentration has increased dramatically, with the market share of the top 50 banks in 2010 equal to that of the top 150 in 2008.



- In Australia, the four largest banks account for 81% of household loans and 78% of all bank deposits.
- In the UK, in 2010 the five largest banks had an 87% share of the market.
- In Brazil, currently, 75% of all deposits of the financial system are held by the five largest banks. Ten years ago, that share was 52.5%.
- In Germany, the top six banks held 68% of retail deposits.
- In France, six banking groups control 90% of deposits, 80% of bank loans, 60% of life insurances, 20% of property insurances and 15% of the real-estate market.

In many countries, market concentration increased as a result of the financial crisis, and bank takeovers were encouraged by governments in France, Spain, the UK and the USA to preserve financial stability. This process not only reduced competition for consumers, but it was often at the taxpayers' expense and rushed through with little public scrutiny. At the height of the crisis, such decisions may have been necessary in order to defend the wider economy and consumer interests. However, as countries emerge from the immediate crisis, competition rules should not be seen as a luxury that countries can no longer afford.

Disposing of state holdings

Government intervention in the financial sector may be necessary and legitimate in the short-term during a crisis, but in the longer term effective competition in the sector has to be restored.⁷

In many countries, the state has announced its intention to dispose of its stakes in wholly-nationalised or part-nationalised banks. In Europe, the European Commission has required banks which received state aid to make divestments, including requiring them to sell off assets, in some cases including branches serving retail consumers.

However, there is a danger that, unless these disposals properly consider the need to increase competition, these divestments and wholly-owned institutions could be sold to other large banking groups – further entrenching the lack of competition for consumers.

If governments take a short-term view of trying to maximise the revenue from these sales, then all consumers will be paying a heavy price through increasingly costly financial services for many years to come. Decisions on divestments in some countries show a worrying precedent.

Competition issues raised by banks that are 'too big to fail'

Since the financial crisis, there has been an international effort, led by the G20 and the Financial Stability Board, to identify 'Systemically Important Financial Institutions' or in a phrase that has entered common vocabulary - 'too big to fail'. These banks are now the focus of tests to ensure the soundness of their finances, and in some cases are required to hold higher levels of capital to protect themselves from shocks.

Whilst these processes are intended to improve the stability of the sector, there is evidence that they may be having perverse impacts in terms of competition. Markets offer these very



large banks lower rates based on the assumption that, no matter how risky their activities, the state will bail them out if necessary. This 'implicit subsidy' distorts the market, and makes it harder for new banks to enter. There are even examples where personal financial advisers have recommended banks that have been identified as systemically important financial institutions as a 'safe investment' as they are by definition 'too big to fail.'

Such consequences highlight the need for additional steps such as separating the investment and retail arms of large banks.

UK: banking reform

Which?, a CI member organisation in the UK, has been campaigning for banking reform in the wake of the British government's multi-billion pound bailout of the sector. Improving competition has been a key concern for Which? as part of its campaign.

On 12 September 2011, Sir John Vickers delivered the influential Independent Commission on Banking (ICB) report to the UK government. The report set out plans for how the banking industry should be radically reformed to prevent another financial crisis and remove the taxpayer guarantee against bank failure. Among its recommendations, the ICB proposes that retail banking is 'ring-fenced' from investment banking. Which? has been supportive of ring-fencing, which would allow the riskier investment banks to fail if they make poor decisions or run their businesses imprudently, and limit the taxpayers' future liability to bail out banks.

As part of divestments required by the European Commission, Royal Bank of Scotland sold 318 retail branches to Santander. Which? viewed this sale from one large bank to another as a huge missed opportunity to inject some much-needed competition into the UK market. The ICB report also recommended that the Lloyds branches be sold to a 'viable challenger' to the banking sector to improve competition on the high street. Even after existing divestment requirements have been fulfilled, Lloyds will control over 25% of the current-account market, as well as approximately 20% of the mortgage, savings and unsecured loan markets. Which? called on the UK Competition Commission to investigate the issue should Lloyds refuse to sell more assets.



Lack of competition and unfair commercial practices in international remittances

A stark example of the lack of competition in financial services can be found in international remittances markets, which are often characterised by a lack of choice, complicated pricing and a lack of information for consumers.

The consequence is that consumers are regularly paying charges that far exceed what can be justified for what is a relatively simple transaction. Despite progress in some 'country corridors', consumers are regularly paying in excess of the 5% recommended by the G8, with some companies charging up to 40% to transfer money between two countries.

CI has called for:

- Competition authorities to investigate practices such as 'exclusivity agreements' that preclude outlets such as retailers and post offices from working with a range of companies.
- Clearer pricing so that consumers understand what they are being charged, and can compare between different providers.
- More information for consumers so that they know what services are available.

Norway: price comparison for money transfers

The Norway Consumer Council (NCC) first examined the Norwegian remittances market in the [Legal, Rapid and Reasonably Priced?](#) report, in 2007. In November 2010, the NCC launched [Sending Money Home](#), a remittances price-comparison website available in Norwegian and English. The service was developed under the NCC's existing [Finansportalen.no](#) site, and allows consumers to compare prices from a number of different service providers offering transfers to 25 low- and middle-income countries.

Conclusion

In many countries around the world, CI members are highlighting the lack of competition in financial services and the impact it is having on consumers.

CI wants all consumers to have access to safe, fair and competitive markets in financial services. Competition is a key part of this, and is a mechanism for enabling consumers to choose and holding providers to account for their products, services and conduct.

Together with our members around the world we are calling on governments to:

- Investigate markets where there are concerns about a lack of competition.
- Ensure that their actions in relation to state intervention or prudential stability contribute to the promotion of competition in the public interest.
- Take measures to make it easier for consumers to switch providers.



Endnotes

¹ *Competition and financial markets: key findings*, 2009, OECD. Available at <http://www.oecd.org/dataoecd/9/22/43067294.pdf>

² 360 ° Bank Evaluation Annual Report of China 2010, issued by Bankrate Network. http://www.bankrate.com.cn/a_2011_0114_55280.html

³ http://www.fsa.gov.uk/pages/Library/Other_publications/commentary/aggregate_com/prev_agg_com/index.shtml

⁴ For details, visit: <http://www.rbi.org.in/Scripts/PublicationsView.aspx?id=13049#3R>. Other government agencies, like the insurance ombudsman, Insurance Regulatory & Development Authority, Security & Exchange Board of India (SEBI), also deal with consumer complaints related to financial services but details of complaints handled are not available on their websites.

⁵ European Commission study, 2009

⁶ Choice *Better banking report*, 2011. Available at <http://www.choice.com.au/reviews-and-tests/money/banking/saving-money/banking-report.aspx>

⁷ *Competition and financial markets: key findings*, 2009, OECD. Available at <http://www.oecd.org/dataoecd/9/22/43067294.pdf>